COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

INITIAL BRIEF
OF
BAY STATE GAS COMPANY

D.T.E. 03-37

REQUEST FOR APPROVAL OF
HUBLINE PRECEDENT AND RELATED LETTER AGREEMENT

June 13, 2003

I. INTRODUCTION

On March 25, 2003, Bay State Gas Company ("Bay State") filed for approval of a Precedent Agreement and Related Letter Agreement relating to the Hubline Pipeline Project from the Department of Telecommunications and Energy ("the Department"). On May 9, 2003, the Department held a procedural conference at its offices in Boston. KeySpan Energy Services – New England filed for, and was granted, limited participant status in the proceeding. Rolling discovery took place on Bay State's filing, commencing May 9, 2003, and ending on May 16, 2003. On June 6, 2003, the Department held an evidentiary hearing. At the hearing, Bay State requested the admission of two exhibits, consisting of Bay State's initial filing (Exh. BSG-1) and an omitted page from that filing (Exh. BSG-2). Bay State also presented the in-hearing sworn testimony of Francisco C. DaFonte from NiSource Corporate Services, who provides the services of Director, Energy Supply Services for Bay State. The Department moved the admission of Bay State's responses to information requests DTE-1-1 through DTE-1-7 (Exh. DTE-1-1 through Exh. DTE-1-7) and issued a single record request, DTE-RR-1, to which Bay State responded on June 12, 2003.[1]

II. DESCRIPTION OF THE HUBLINE PROJECT

Hubline is a new pipeline project sponsored by Algonquin Gas Transmission Company ("Algonquin"). Exh. BSG-1 at 4. The project is planned to extend approximately 30 miles from an interconnection with Maritimes and Northeast Pipeline ("Maritimes") near Beverly, Massachusetts to the Algonquin system in Weymouth,

[1] Bay State seeks approval of the agreement by July 31, 2003. Exh. BSG-1 at 7; Exh. BSG-1 at Exh. FCD-3.

Massachusetts. Exh. BSG-1 at 4. Hubline is designed to enable shippers to purchase Canadian supplies from Sable Island or Western Alberta for delivery into the Eastern end of the Algonquin system. Exh. BSG-1 at 5. At the time of filing the petition, the anticipated in-service date for the Hubline project was November 1, 2003. Exh. BSG-1 at 5.

III. DESCRIPTION OF PRECEDENT AGREEMENT AND RELATED LETTER AGREEMENT

Under the terms of the precedent agreement, Bay State will receive firm transportation from Algonquin pursuant to Rate Schedule AFT-1 for a term of ten years beginning on November 1, 2003. Exh. BSG-1 at 5; Exh. BSG-1 at Exh. FCD-1. The maximum daily quantity under the agreement is 20,000 Dth. Id. Bay State's receipt point is the interconnection with the Maritimes Phase III facilities in Beverly, Massachusetts and the delivery point is a new gate station located in Sharon, Massachusetts. Id.

The primary conditions precedent in the Hubline agreement are:

(1) Algonquin must receive all government and regulatory approvals of its proposed service to Bay State, which primarily entails FERC approval.

(2) Maritimes must complete its Phase III expansion, which is an upstream pipeline segment required to receive volumes into Hubline.

(3) Bay State must construct or cause to be constructed all facilities necessary to receive service off Hubline.

(4) Bay State must receive all government and regulatory approvals it deems are necessary for service to be initiated, which includes Bay State's request for the Department's approval in this proceeding.

(5) Hubline construction must be completed by August 1, 2004.

Exh. BSG-1 at 6.

Once the conditions precedent have been satisfied, or waived if permitted under the agreement, Bay State and Algonquin will enter into an AFT-1 service agreement in the form included in Algonquin's FERC-approved tariff, which will then govern the rights and obligations of the parties. Exh. BSG-1 at 5-6.

The Letter Agreement contains two significant features. See Exh. BSG-1 at Exh. FCD-4. First, it contains a negotiated rate between Bay State and Algonquin that offers important economic advantages to Bay State and results in rate certainty for the entire ten-year term of Bay State's service.[2] Exh. BSG-1 at 7; Exh. BSG-1 at Exh. FCD-4. Second, Algonquin has agreed to pay for the costs of a new meter station off of its facilities in Sharon, Massachusetts, providing thereby a new delivery point with much needed pressure support in a constrained section of Bay State's distribution system. Exh. BSG-1 at 7; Exh. BSG-1 at Exh. FCD-4. Because Bay State avoids these costs, savings result. Exh. BSG-1 at 8.

IV. STANDARD OF REVIEW

[2] Mr. DaFonte testified that this feature eliminates the rate uncertainty that would result from future rate cases filed with FERC by Algonquin. Exh. BSG-1 at 7; Exh. BSG-1 at Exh. FCD-4.

The Department applies a public interest standard for approval of incremental capacity resources under G.L. c. 164, sec. 94A. Commonwealth Gas Co., D.P.U. 94-174-A at 27 (1996). In order to make the requisite demonstration that the acquisition is in the public interest, the local distribution company ("LDC") must show the acquisition to be consistent with portfolio objectives and that the selected resource compares favorably with a range of alternative options reasonably available to the LDC and its customers, at the time the acquisition is made. Id. In the present case, Bay State's Hubline acquisition satisfies these criteria and accordingly, Bay State requests that the resource be approved.

V. BAY STATE'S PRECEDENT AGREEMENT AND RELATED LETTER AGREEMENT ARE IN THE PUBLIC INTEREST AND SHOULD BE APPROVED

A. THE ACQUISITION IS CONSISTENT WITH BAY STATE'S PORTFOLIO OBJECTIVES

When determining whether a resource provides a consistent fit with a regulated company's portfolio objectives, the Department looks to recently approved portfolio objectives from the company's most recent resource plan or recent review of supply contracts, relying as well upon the company's description of its objectives in seeking the proposed resource. See, Commonwealth Gas Co., D.T.E. 94-174-A at 27; see Fitchburg Gas and Elec. Light Co., D.T.E. 02-55 at 3.

As Mr. DaFonte testified, the acquisition of Hubline capacity contributes to Bay State's goal of developing a best-cost portfolio. Exh. BSG-1 at 9. Bay State requires an

incremental resource to meet its Brockton Division requirements on a reliable basis. Exh. BSG-1 at 12. Bay State's planning process seeks to acquire and manage resources in a manner that achieves a best-cost resource portfolio for its customers, thereby balancing cost with non-cost criteria such as reliability, flexibility and viability. Exh. BSG-1 at 10-13. Ultimately, the goal of a best-cost portfolio is to achieve adequate and reliable service at a reasonable cost. See, Exh. BSG-1 at 10-11. As Bay State reviews its portfolio, it seeks to satisfy these objectives: (1) to reduce portfolio cost; (2) to maintain portfolio reliability (which includes enhancing diversity in both transportation and supply); (3) to provide flexibility necessary for Bay State to respond to demands on its system; and (4) to acquire viable resources. Exh. BSG-1 at 8-9. In selecting the Hubline among other alternatives, Bay State employed its resource planning process, analytical tools and assessment methods to perform long-range planning and evaluation: it determined that customer requirements indicated increased design demand on the Brockton Division, tested the criteria, and measured its existing resource adequacy. Exh. BSG-1.

Then Bay State conducted its resource evaluation, testing the need by using the SENDOUT® optimization model ("SENDOUT®") based on its current requirements forecast. Exh. BSG-1 at 18; Exh. DTE-1-5. In order to use SENDOUT®, Bay State identified potential resources to meet its requirements including renewal or restructuring

of existing resources as well as potential new pipeline, storage, citygate and on-system resources.[3] Exh. BSG-1 at 14, 18.

As Mr. DaFonte testified, Bay State's resource evaluation encompassed the assessment of both the cost and non-cost characteristics of potential resources. Exh. BSG-1 at 18. The SENDOUT® cost analysis evaluates the impact of cost changes on Bay State's portfolio by simulating the daily dispatch of available resources under specified conditions. Exh. BSG-1 at 19; Exh. DTE-1-5. SENDOUT® can evaluate a least-cost incremental resource or package of resources based on the total cost impact upon the existing portfolio. Exh. BSG-1 at 18,19. Because SENDOUT® is just one evaluative tool, Mr. DaFonte testified that Bay State evaluates the non-cost characteristics of alternative resources including reliability, flexibility and viability through assessment techniques, including scoring. Exh. BSG-1 at 20.

The Department has reviewed Bay State's planning objectives and methods in the context of periodic Integrated Resource Plan ("IRP") proceedings, as well as in conjunction with previous requests for approval of specific resource decisions.[4] See, e.g.

---

[3] Bay State notifies retail suppliers of material changes to its portfolio that would affect the quantity and type of capacity assigned to third-party customer pools under the Department's existing capacity assignment regulations. Exh. BSG-1 at 13-14. On April 12, 2002, Bay State notified all retail suppliers serving its customers of its intention to acquire incremental resources in the Brockton Division. Exh. BSG-1 at 14; Exh. BSG-1 at Exh. FCD-5.

[4] Bay State described the factors leading to its decision to acquire incremental pipeline deliverability to Brockton in its most recent IRP. Bay State Gas Co., D.T.E. 02-75 (pending). It is important to note that Bay State's cost evaluation of its alternative resource options was finalized at the

Bay State Gas Co., D.T.E. 02-75 (pending); Bay State Gas Co., D.T.E. 03-32 (pending); Bay State Gas Co, D.T.E. 02-52 (2002); Bay State Gas Co., D.T.E. 00-52 (2000). Bay State has consistently followed the approved path of creating a "best cost" portfolio. See, e.g., Bay State Gas Co., D.P.U. 93-129 (1996) at 49. Bay State has consistently applied those methods to this resource selection. Since the Department previously determined that Bay State's portfolio objectives and its resource acquisition process were appropriate and reasonable, and since those techniques were followed here, the first criteria has been satisfied for the Department to find the acquisition consistent with the public interest.

B. THE ACQUISITION OF HUBLINE CAPACITY COMPARES FAVORABLY TO THE RANGE OF AVAILABLE ALTERNATIVES AT THE TIME

Bay State applied the Department-approved planning process, which commenced with a solicitation of bids from potential capacity alternatives. Exh. BSG-1 at 14-18. Then Bay State conducted a thorough cost and non-cost evaluation of each alternative. Exh. BSG-1 at 18-19; Exh. BSG-1 at Exh. FCD-9. The results of Bay State's analyses demonstrate that Hubline is superior to other options and is consistent with the public interest. Exh. BSG-1 at 25-26.

1. In Order to Determine the Range of Alternatives, Bay State Identified Alternatives Capable of Meeting its Additional Capacity Resource Needs

---

same time as its IRP filing. The primary SENDOUT® analyses in this proceeding are the same as those presented in D.T.E. 02-75. See Exh. DTE-1-5.

As Mr. DaFonte indicated, Bay State faced increasing design firm requirements from its Brockton Division over the last five years.[5] Exh. BSG-1 at 12. The last incremental pipeline capacity added to the Brockton Division was in 1994, when Bay State acquired 14,758 Dth of Algonquin AFT-1 service. Exh. BSG-1 at 12-13. Since that time, Bay State's Brockton Division's estimated firm peak day requirements have grown by approximately 30,000 Dth, or 14% in total. Exh. BSG-1 at 13.

Service to the Brockton Division would be improved by increased diversity. Nearly all of Bay State's pipeline capacity to serve the Brockton Division has been provided by Algonquin.[6] Exh. BSG-1 at 15. It also has been supplied on a limited basis by Tennessee Gas Pipeline ("Tennessee") through a small (7,500 Dth per day) interconnect located in Mendon, Massachusetts, by Bay State's LNG and propane facilities, and by LNG liquid and vapor service provided by Distrigas of Massachusetts ("Distrigas").[7] Exh. BSG-1 at 12-13.

---

[5] The last time Bay State added incremental pipeline capacity with deliverability to the Brockton Division was in 1994. Exh. BSG-1 at 13.

[6] Bay State's other divisions, Springfield and Lawrence, are primarily served by Tennessee. Only existing levels of firm volumes from these other noncontiguous service areas, which are limited, are transferable and can make their way to the Brockton Division under favorable market conditions. Exh. BSG-1 at 13.

[7] To a certain degree, Bay State has managed its growth through the acquisition of greater volumes of LNG from Distrigas; however, at the present time, incremental pipeline capacity offers important advantages for relieving the supply constraints. Exh. BSG-1 at 13.

Three resource alternatives were available to meet Bay State's need in the Brockton Division for diversity, reliability and viability: traditional interstate pipeline; delivered citygate service; and/or service from Distrigas with backhaul by Algonquin. Exh. BSG-1 at 14.

2. In Order to Determine the Range of Alternatives, Bay State Broadly Issued an RFP, Consistent with its Resource Planning Process

Bay State developed a request for proposals ("RFP") to solicit formal bids (1) from potential suppliers of citygate service[8] and (2) from Distrigas. Exh. BSG-1 at 14. At the same time, Bay State separately evaluated incremental pipeline alternatives to determine the most cost effective option to analyze along with the responses to the RFP.[9] Exh. BSG-1 at 14.

With respect to requested volumes in its RFP, Bay State recognized that citygate alternatives provided the opportunity to closely match desired quantities with requirements. Exh. BSG-1 at 15. As such, the RFP reflected increasing maximum daily quantities and total winter quantities over the five-year term consistent with Bay State's

[8] The bidders selected by Bay State to receive the RFP represent all of the major marketing companies active in the Northeast and were considered viable suppliers at the time the RFP was issued Exh. BSG-1 at Exh. FCD-7. Bay State also sent the RFP to Distrigas and to all retail suppliers serving its customers. Exh. BSG-1 at 16.

[9] Bay State performed the independent evaluation of pipeline alternatives without an RFP because the only pipeline alternative available to serve the Brockton Division is Algonquin. Exh. BSG-1 at 15.

increasing requirements.[10] Exh. BSG-1 at 15. The maximum daily volume requested in the first year was 37,500 Dth, which increased to 54,750 Dth in the final year, to be delivered at either Bay State's existing Algonquin gate station or the proposed new Sharon gate station. Id. Implicit in the RFP was the ability to provide less than 100% of Bay State's incremental requirements. Id.

With respect to price, all bids referenced a commodity price relative to the Algonquin citygate price, with demand charges provided separately. Exh. BSG-1 at 16. The RFP also provided that bidders could submit bids for winter baseload service to be delivered to the interconnection between Tennessee and Joint Factilites in Dracut, MA in order to enable Bay State to evaluate the Hubline pipeline alternative and the delivered citygate options on a comparable basis. Exh. BSG-1 at Exh. FCD-6. All bids for the winter baseload option referenced either the Dracut *Gas Daily* index or set out a basis differential to the NYMEX price. Id.

Bay State received eight responses to the RFP, with five respondents bidding on citygate supplies for delivery to the Algonquin citygates.[11] Because the

---

[10] The RFP included provisions related to the desired volumes, pricing options and various other supplier information necessary for Bay State to complete its cost and non-cost evaluations. The requested term for the bids was the five-year period from November 1, 2003 through October 31, 2008. Exh. BSG-1 at 15.

[11] Neither Distrigas nor any of the retail suppliers submitted bids. Exh. BSG-1 at 17.

wholesale marketers now have constrained access to capital,[12] Bay State's evaluation of its citygate options was impacted. Exh. BSG-1 at 16-17. As Mr. DaFonte testified, Bay State focused its resource evaluation upon Hubline and two additional viable citygate alternatives. Exh. BSG-1 at 18; Exh. BSG-1 at Exh. FCD-9; Exh. BSG-2.

3. In Order to Determine the Best Cost Alternative Among the Range of Alternatives Available, Bay State Evaluated the Bids on a Combination Cost and Non-Cost Basis

With the Hubline capacity, Bay State will be able to alleviate the constraint it managed for so long and will benefit from increased flexibility and diversity as a result of its ability to receive gas from two supply points: western Alberta or the Canadian Maritimes. [13] Exh. BSG-1 at 26.

a. Hubline was the Superior Alternative Following the Cost Evaluation

Consistent with its approved resource planning process, Bay State performed a combination of cost and non-cost evaluations of the responses to the RFP and of Hubline. Exh. BSG-1 at 12-18. Bay State utilized SENDOUT® to model the cost impact of each alternative for the ten-year period beginning November 1, 2003, to identify the optimum resource or resources to meet projected requirements. Exh. BSG-1 at 18. In addition,

---

12 Certain proposals were not viable because the bidders subsequently announced their intent to cease wholesale marketing activities. These bids also contained reservations that prevented the bid from binding the supplier. Exh. BSG-1 at 17.

13 The fact that Algonquin/Duke Energy will construct a new meter station in Sharon at no charge gives the added benefit of savings, pressure support and a reliable gas supply path. Exh. BSG-1 at 8. Among the many benefits, Bay State will pay a discounted rate for the pipeline capacity. See infra at 2.

Bay State evaluated the reliability, flexibility and viability characteristics of each option. Exh. BSG-1 at 18, 20. Bay State then performed further SENDOUT® analyses based on more recent commodity price increases. Exh. BSG-1 at 19. The SENDOUT® analysis determined the best cost resource to be 15,475 Dth of Hubline beginning in 2003/04 and an additional 14,210 Dth beginning in 2008/09, for a total quantity of 29,685 Dth. Exh. BSG-1 at 19. The SENDOUT® analyses also indicated a smaller portion of citygate service would be desirable beginning in 2005/06. Exh. BSG-1 at 19; Exh. DTE-1-5.

Moreover, the cost-effectiveness of the Hubline capacity alternative, indicated under the base case SENDOUT® analysis, is confirmed under various scenarios, including the more recent analyses evaluating the impact of increased commodity market prices. Exh. BSG-1 at 19; Exh. DTE-1-5. As an additional cost criteria, Bay State evaluated the costs avoided resulting from Algonquin's agreement to pay for Bay State's new Sharon gate station.

In sum, the evidence supports a finding that Hubline is a cost-effective resource and contributes to an optimal portfolio.

b. Hubline was the Superior Alternative Following the Non-Cost Evaluation

Mr. DaFonte also testified that the reliability, flexibility and viability of Hubline versus the two citygate alternatives were examined. Exh. BSG-1 at 20. Reliability includes such factors as the supplier's reserves, delivery point capabilities and contractual

protections in case of curtailment situations. Exh. BSG-1 at 20; Exh. BSG-1 at Exh. FCD-8. Flexibility includes such factors as minimum take provisions, nomination flexibility and access to storage. Exh. BSG-1 at 20; Exh. BSG-1 at Exh. FCD-8.Viability includes such factors as financial integrity, reputation and contribution to portfolio diversity. Id. Bay State conducted a detailed evaluation, consisting of a scoring process of each bidder. Id.

The non-cost evaluative process concluded that the Hubline alternative to be superior in each category evaluated, according to Mr. DaFonte. Exh. BSG-1 at 21-22; Exh. BSG-1 at Exh. FCD-9. The two alternative citygate options did not offer the same degree of reliability, flexibility and viability. Exh. BSG-1 at 21-22 (reliability scoring related to supplier security and enhancement to Bay State's portfolio diversity; flexibility scoring related to minimum take levels; viability scoring related to financial integrity, diversity of supplies and storage, reputation and past performance).

VI. CONCLUSION

Bay State demonstrated that it employed its Department-approved resource evaluation process in determining that the Hubline project constituted the superior alternative available to Bay State at the time it selected the Precedent Agreement and related Letter Agreement. From a cost perspective, the evidence demonstrates that Hubline is preferable to Bay State's citygate alternatives based on the SENDOUT® analyses and in addition, offers additional savings associated with the avoided cost of the

Sharon gate station construction. From a non-cost perspective, the evidence demonstrates that Hubline offers superior reliability through primary point capacity to Bay State's citygate, enhancing diversity by introducing a new pipeline supply to the Brockton Division.

WHEREFORE, for all the reasons set forth in this Initial Brief, Bay State Gas Company respectfully requests that the Department of Telecommunications and Energy grant its approval, pursuant to G.L. c. 164, sec. 94A, of the Hubline Pipeline Precedent Agreement and related Letter Agreement as consistent with the public interest, and grant all such other relief as it shall deem just and reasonable.

Respectfully submitted,

BAY STATE GAS COMPANY

By its Attorney,

Patricia M. French
NiSource Corporate Services Company
300 Friberg Parkway
Westborough, MA 01581
(508) 836-7394
fax (508) 836-7039

DATED: June 13, 2003